

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00 AGR-05

EA-06 L-03 CIAE-00 INR-07 NSAE-00 /075 W

----- 018148

R 311013Z JUL 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 2805

C O N F I D E N T I A L MOSCOW 10721

E.O. 11652 GDS

TAGS: ETRS, EEWT, EFIN, UR

SUBJ: SOVIET HARD CURRENCY TRADE

REF: (A) STATE 175892; (B) MOSCOW 8883

1. EMBASSY APPRECIATES CIA/OER ASSESSMENT OF SOVIET HARD CURRENCY POSITION, WHICH IS PARTICULARLY INTERESTING AT PRESENT TIME WHEN USSR FACED WITH NECESSITY OF PAYING OUT APPROXIMATELY TWO BILLION DOLLARS, POSSIBLY MORE, IN HARD CURRENCY FOR 1975/1976 GRAIN PURCHASES. VIEWING SITUATION FROM HERE, WE SUBMIT FOLLOWING F AGMENTS OF INFORMA- TION WHICH CONFIRM AND SUPPLEMENT CIA/OER ANALYSIS, AND POINT TO A SITUATION OF RISING SOVIET HARD CURRENCY TRADE DEFICITS AND IN- CREASING NECESSITY FOR COVER BY DRAWING ON EXISTING MEDIUM AND LONG-TERM WESTERN CREDITS, EURO-DOLLAR BORROWING AND GOLD SALES.

(Q) CONTINUED REQUESTS FOR CHEAP CREDIT. JAPANESE EMBASSY SOURCES HAVE AGAIN CONFIRMED THAT JAPANESE HAVE TWICE TURNED DOWN RECENT SOVIET REQUESTS (REF B) TO JAPANESE EXPORT-IMPORT BANK PRESIDENT SUMITA FOR A ONE BILLION DOLLAR UNITED CREDIT. SUB- SEQUENTLY -- IN MID JULY -- SOVIETS MADE NEW REQUEST TO JAPANESE FOR APPROXIMATELY \$100 MILLION CREDITI "ON CONCESSIONARY TERMS" TO COVER COSTS OF HEAVY TRUCKS AND OTHER EQUIPMENT NEEDED FOR YAKUTIA COAL DEVELOPMENT. COST OF TRUCKS APPARENTLY ORIGINALLY TO BE COVERED BY A PORTION OF APPROXIMATELY ONE
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BILLION DOLLAR JAPANESE EX-IM BANK CREDIT EXTENDED TO USSR FOR

SIBERIAN DEVELOPMENT IN SPRING OF 1974, BUT ADDITIONAL CREDIT NOW NEEDED BECAUSE OF RISING COSTS. JAPANESE NOW CONSIDERING THIS LATEST REQUEST. SPECIFIC AMOUNT OF INTEREST RATE WHICH SOVIETS REGARD AS "CONCESSIONARY" IS NOT CLEAR, ALTHOUGH APPEARS TO BE IN NEIGHBORHOOD OF 6.7 PERCENT.

(B) RISING TRADE DEFICITS WITH MAJOR DEVELOPED-COUNTRY TRADE PARTNERS. ACCORDING TO FRG EMBASSY, SOVIET TRADE DEFICIT WITH FRB FOR FIRST FIVE MONTHS 1975 WAS DM 1.5 BILLION (ABOUT \$588 MILLION). JAPANESE FIGURES FOR FIRST FIVE MONTHS OF THIS YEAR ARE EQUALLY STRIKING, SHOWING SOVIET TRADE DEFICIT OF \$238 MILLION, COMPARED WITH SOVIET SURPLUS OF \$291 MILLION FOR SAME PERIOD LAST YEAR.

(C) CONTINUED RUMORS OF NEW OVERTURES FOR EURO-DOLLAR LOANS. IN ADDITION TO \$350 MILLION WHICH SOVIETS OBTAINED WITH RELATIVE EASE FROM WESTERN BANK CONSORTIA IN FIRST HALF OF THIS YEAR (PARA 8, REF A), RUMORS PERSIST OF SOVIET INTEREST IN ACQUIRING ADDITIONAL EURO-DOLLAR ASSISTNCE OVER NEXT SEVERAL MONTHS. ON JULY 15 EMBASSY OFFICER WAS TOLD BY DAVID LASCELLES, EAST EUROPEAN AND SOVIET EDITOR OF LONDON FINANCIAL TIMES, WHO HAS EXCELLENT CONTACTS IN LONDON BANKING CIRCLES, THAT SOVIETS PUTTING OUT FEELERS FOR NEW EURO-DOLLAR LAONS THIS FALL, AND THAT IT IS VIEW OF SOME EXPERTS IN LONDON CITY THAT \$100 MILLION AND \$250 MILLION EURO-DOLLAR LOANS RAISED IN JANUARY AND APRIL OF THIS YEAR WERE MAINLY MARKET TESTING FOR SUBSEQUENT OPERATIONS. THERE IS ALSO THE CONTINUED PROBABILITY OF IMPORTANT EURO-DOLLAR BORROWING BY SOVIET-DOMINATED CEMA INTERNATIONAL INVESTMENT BANK TO COVER EQUIPMENT PURCHASES FOR ORENBURG NATURAL GAS DEVELOPMENT.

(D) LARGE SUMS PLACED IN WESTERN MARKETS AT INTEREST. ANOTHER PHENOMENON, A NEW ONE WHICH REFLECTS BOTH MOSCOW'S RELATIVELY STRONGER FINANCIAL POSITION COMPARED WITH ONLY A FEW YEARS AGO, AND ALSO ITS DETERMINED EFFORT TO SQUEEZE EVERY LAST CENT OUT OF HARD-CURRENCY EARNINGS, IS THE SHARP INCREASE IN SOVIET SHORT-TERM DEPOSITS IN WESTERN MONEY MARKETS. ACCORDING TO LASCELLES, SOVIET SHORT-TERM DEPOSITS IN THE LONDON MARKET IN MID-1975 WERE WELL OVER ONE BILLION DOLLARS. WESTERN BANKING SOURCES IN MOSCOW HAVE ALSO CONFIRMED THAT SOVIETS

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HAVE BECOME INCREASINGLY INSISTENT THAT WESTERN BANKS MAINTAINING REPRESENTATIVES HERE MAKE SHORT-TERM DEMAND OR TIME DEPOSITS OF EXCESS HARD CURRENCY -- ARRANGEMENTS SIMILAR TO SWAP DEALLS -- IN VNESHTORGBANK OR THE CEMA BANKS. IN THE CASE OF ONE WEST GERMAN BANK THESE WERE ESTIMATED AT OVER \$50 MILLION DURING THE LAST TEN DAYS OF JULY.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, TRADE, SALES, HARD CURRENCIES, GRAINS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW10721
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750264-0877
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975074/aaaaadjw.tel
Line Count: 114
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 175892, 75 MOSCOW 8883
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by CunninFX>; APPROVED <12 JUN 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET HARD CURRENCY TRADE
TAGS: ETRD, EEWT, EFIN, UR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006